

CLEVELAND PUBLIC LIBRARY
BUSINESS INT. DEPT.
CORPORATION FILE

FOOD GIANT
MARKETS, INC.
annual report
'62



DIRECTORS

THEODORE E. CUMMINGS*

HOWARD EDGERTON*

HAROLD L. FIERMAN*

RAY L. HOMMES

J. BRADFORD WHARTON, JR.

**Members of the Executive Committee*

OFFICERS

HAROLD L. FIERMAN, *Chairman of the Board*

THEODORE E. CUMMINGS, *President and Chairman of the Executive Committee*

HAROLD G. WARD, *Executive Vice President*

FRANCIS W. DANIELSON, *Vice President, Assistant to the President*

BRUCE J. CAMPBELL, *Vice President-Finance and Treasurer*

EVERETT E. YOUNT, *Secretary*

SEYMOUR RABIN, *Vice President*

TRANSFER AGENTS

The Marine Midland Trust Company of New York, N.Y.

The Corporation Trust Company of Jersey City, N.J.

REGISTRAR

Chemical Bank New York Trust Company, New York, N.Y.

AUDITORS

Ernst & Ernst

COUNSEL

Kaye, Scholer, Fierman, Hays & Handler, New York, N.Y.

Robert N. Gold, Beverly Hills, California

FOOD GIANT MARKETS, INC. / PRINCIPAL OFFICE

12500 East Slauson Avenue / Santa Fe Springs, California

TO OUR SHAREHOLDERS

The fiscal year, ended February 3, 1963, marked the completion of five full years' operations since the merger of Food Giant Markets, Inc., into Magic Chef, Inc. to form your present Company. As part of this report, we have prepared a statistical summary of the financial highlights of the Company's operations during this five-year period. We hope this information will be helpful to the stockholders in measuring the progress made by your Company and in appraising the Management's plan for its future growth.

Sales and earnings for the past fiscal year were the highest in our history, reflecting in part the results of the expansion and diversification program which the Company has pursued and is continuing.

Consolidated net sales of Food Giant and its subsidiaries for the 53-week period ended February 3, 1963, were \$221,392,319, as against \$181,002,682 for the 52 weeks ended January 28, 1962*, an increase of 22%. Profits before

taxes of \$6,841,354 compares with the previous fiscal year's pre-tax earnings of \$5,319,983, an increase of 29%. Consolidated net income after Federal Income Taxes was \$3,701,354**, which, after provision for Preferred Stock Dividends, is equal to \$1.25 per share on 2,835,817 shares of Common Stock outstanding, representing an increase of 34% over net earnings for the comparable 52 weeks of the previous fiscal year of \$2,761,655, which, after provision for Preferred Stock Dividends, equalled 96¢ per share on 2,675,749 shares outstanding at the close of that year.

Current operations continue to reflect the favorable sales and earnings trends which commenced the latter part of 1962 and give every evidence that this pattern of improvement will continue during the current year. The achievement of our expansion goals should result in significant increases in sales and earnings.

During the past fiscal year your Company

* The figures for the 52 weeks ended January 28, 1962, are shown so that comparisons may be meaningful. Because the Company changed to a fiscal year effective January 29, 1962, audited sales and earnings set forth in last year's Annual Report covered a 56-week period ended January 28, 1962, and were as follows: Net Sales, \$196,532,509; Income Before Taxes, \$5,700,734; Net Income, \$3,011,134.

** Reference is made to Note D of Notes to Financial Statements.



opened eight supermarkets, four low-cost distribution centers and three Builders Emporium units. Accordingly, Food Giant today is operating 52 supermarkets, 7 package liquor stores, 7 Unimart low-cost distribution centers and 12 Builders Emporium units. Your Company's participation in the non-concession, low-cost distribution field, through Unimart, has proven so satisfactory that, in addition to the four units which were opened during the last twelve months, three new Unimart stores are planned for opening in 1963. One of these will be located at San Mateo, California, representing this Company's first entry into the highly-populated, fast-growing Northern California area. In November, 1962, the first free-standing Builders Emporium unit was opened adjacent to a Food Giant market. Sales and customer counts indicate that these stores supplement each other and add to the volume and profit of each. Accordingly, additional free-standing Builders Emporium units adjacent to Food Giant markets are planned for 1963 and 1964.

The automation and expansion programs for Meyenberg Milk Products, Inc., our wholly-owned subsidiary, and Golden Creme Farms, Inc., in which we own a controlling interest, were completed during the fiscal year and

resulted in an increase in the capacity and efficiency of both of these companies, and an improvement in their respective competitive positions.

The experience of the past five years has defined the form of your Company's expansion program. In the 24 months of the current and next fiscal years, your Company plans to open at least thirty units, including supermarkets, Unimarts, and Builders Emporiums. Hopefully, these openings will be divided about equally between the two fiscal years, depending on construction schedules and the ability of the owners to make the properties available precisely on schedule. This program finds important support in the official statistics confirming the growth of the Southern California area.

Our Balance Sheet at the end of the fiscal year continues to be most satisfactory. The cash flow generated by retained earnings and depreciation have been and, in the opinion of your Management, will continue to be sufficient to finance your Company's expansion program.

Two regular semi-annual cash dividends aggregating 40¢ a share on the Preferred Stock were paid during 1962. In addition, two semi-



annual stock dividends aggregating 4% were paid on the Common Stock of the Company. Since December, 1958 the total stock dividends paid have totalled 18%.

Legal technicalities resulting from the bankruptcy proceedings involving McDaniel's Markets have prevented Food Giant from taking final possession of the eight units purchased from McDaniel's. Operations of these stores are not included in any of the figures, either sales or earnings, of this report.

Currently your Company has consolidated in the administrative offices at Santa Fe Springs, California, all of the executive personnel of the organizations of Food Giant, Unimart, and Builders Emporium. These include the buying, merchandising, advertising and promotion departments of these three divisions. Implementing this program Food Giant has installed the most modern electronic data processing equipment, which makes possible a more efficient and complete supervision of

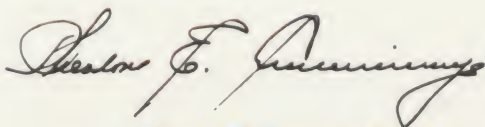
all accounting and inventory control procedures. Your management is confident that the administration of the business will function more effectively and on a more economical basis, thus accomplishing savings which should contribute to a reduction in cost of operations.

During the past year Mr. Seymour Rabin was elected Vice President of your Company. He will also continue to act as President of Unimart.

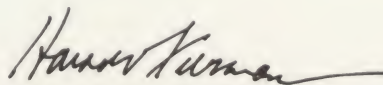
We are pleased to announce that on February 26, 1963, Mr. Lawrence Harvey, President of Harvey Aluminum, Incorporated, was nominated for election as a Director of your Company at the coming Annual Meeting.

Our employees deserve recognition for a job well done. Relying on their loyalty and ability and the continued interest of our shareholders, customers and suppliers, your Management is facing with confidence the challenge of the future.

Respectfully submitted,



Theodore E. Cummings, President



Harold L. Fierman, Chairman of the Board



ASSETS

CURRENT ASSETS

Cash		\$ 2,802,521
Notes and accounts receivable:		
Notes and contracts	\$ 169,119	
Trade accounts	2,367,205	
Other	637,921	
	<u>\$ 3,174,245</u>	
Less allowance for doubtful	52,047	3,122,198
Merchandise inventories—generally at lower of average cost or market		20,486,073
Prepaid expenses		1,376,554
Properties and equipment, subject to agreement of sale and lease-back, less interim bank financing of \$2,550,000...		574,325
TOTAL CURRENT ASSETS		<u>\$28,361,671</u>

INVESTMENTS AND OTHER ASSETS

Investment in Giant Realty, Inc.—at equity in net assets..	\$ 78,362	
Investment in McDaniel's Markets—Note B.....	2,384,307	
Investments in affiliates (\$1,552,272) and other capital stocks—at cost	1,599,548	
Liquor licenses and sundry	1,636,594	
Trade-marks, patents, and franchises—at cost less amortization	139,049	
Deferred charges	<u>934,010</u>	6,771,870

PROPERTY, PLANT, AND EQUIPMENT—on the basis of cost

Land (\$70,250), buildings, fixtures and equipment, leaseholds, and leasehold improvements.....	\$27,051,684	
Less allowances for depreciation and amortization.....	<u>9,132,172</u>	
	\$17,919,512	
Deposits on purchase of equipment having a total cost of \$385,000	<u>144,653</u>	18,064,165
		<u><u>\$53,197,706</u></u>

STATEMENT OF CONSOLIDATED FINANCIAL POSITION*

FOOD GIANT MARKETS, INC. AND CONSOLIDATED SUBSIDIARIES / February 3, 1963

*See notes to financial statements

LIABILITIES

CURRENT LIABILITIES

Trade accounts payable		\$12,605,139
Salaries and wages, payroll taxes, and amounts withheld from payrolls		1,591,878
Accrued taxes, interest, rent, and other expenses		713,475
Federal taxes on income—estimated		1,882,717
Current portion of long-term debt		1,008,095
TOTAL CURRENT LIABILITIES		<u>\$17,801,304</u>

LONG-TERM DEBT

5.9% promissory note payable to insurance company—payable \$770,000 annually to February 1, 1975—Note C	\$10,000,000	
Other long-term debt	459,665	
	<u>\$10,459,665</u>	
Less current portion	<u>1,008,095</u>	9,451,570
DEFERRED FEDERAL TAXES ON INCOME—Note D		910,257

STOCKHOLDERS' EQUITY

Capital stock:		
Preferred Stock, par value \$10 a share—Note E:		
4% Cumulative Convertible Preferred Stock;		
authorized 877,490 shares, converted 479,199		
shares, outstanding 398,291 shares	\$ 3,982,910	
Other, not presently defined; authorized 522,510		
shares, none outstanding	—0—	
Common Stock, par value \$1 a share—Notes E and F:		
Authorized 5,000,000 shares		
Issued and outstanding 2,934,006 shares, including		
98,189 shares in treasury	2,934,006	
Capital surplus	14,011,523	
Earned surplus—Note C	6,295,535	
	<u>\$27,223,974</u>	
Less Common Stock in treasury—98,189 shares at cost . .	<u>2,189,399</u>	25,034,575

CONTINGENT LIABILITIES AND LONG-TERM LEASES

Notes G and H		
		<u>\$53,197,706</u>



	CAPITAL SURPLUS	EARNED SURPLUS
STATEMENT OF CONSOLIDATED SURPLUS		
Balance at beginning of period.....	\$11,691,224	\$4,629,753
Excess of Preferred Stock (53,923 shares) par value over that of Common Stock issued (40,436 shares) on conversion	498,641	
2 ⁹ / ₁₀ stock dividends paid—54,323 shares on June 29, 1962, and 55,593 shares on December 17, 1962, at approximate market value at date of issuance.....	1,765,983	(1,875,899)
Issuance of 9,716 shares of Common Stock under stock option agreements	58,184	
Cash dividends paid on Preferred Stock (\$.40 a share).....		(159,673)
Adjustments incident to acquisition of company in prior fiscal year.....	(2,509)	
Net income for the period.....		3,701,354
Balance at end of period.....	<u>\$14,011,523</u>	<u>\$6,295,535</u>
STATEMENT OF CONSOLIDATED INCOME		
Net sales		\$221,392,319
Cost of merchandise sold.....		171,664,690
		\$ 49,727,629
Selling, administrative, and general expenses.....		43,566,097
		\$ 6,161,532
Other income (capital gains, rents, dividends, and sundry earnings)		1,527,490
		\$ 7,689,022
Other deductions:		
Interest on long-term debt.....	\$499,911	
Other Interest	260,649	
Miscellaneous	87,108	847,668
		\$ 6,841,354
INCOME BEFORE INCOME TAXES		
Estimated federal income taxes, including \$698,796 deferred to future years.....		3,140,000
		<u>\$ 3,701,354</u>
NET INCOME		
Provision for depreciation and amortization of property, plant, and equipment amounted to \$2,535,181 for the year.		

STATEMENT OF CONSOLIDATED INCOME AND SURPLUS*

FOOD GIANT MARKETS, INC. AND CONSOLIDATED SUBSIDIARIES Fifty-three weeks ended February 3, 1963

*See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

NOTE A—PRINCIPLES OF CONSOLIDATION. The consolidated financial statements include the accounts of the Company and certain wholly-owned subsidiaries (Meyenberg Milk Products, Inc., Unimart, Inc., B. E. Enterprises, Inc., and B. E. Properties, Inc.). The statements do not include the accounts of Giant Realty, Inc., a wholly-owned real estate subsidiary whose statements are shown separately. Significant inter-company accounts and transactions have been eliminated in consolidation.

NOTE B—INVESTMENT IN MCDANIEL'S MARKETS. In April, 1961, the Company entered into an agreement to acquire nine McDaniel's supermarkets and, on April 10, 1961, took over the operation of these markets. The sale was consummated on August 3, 1961; however, subsequent to that date, an involuntary petition in bankruptcy was filed against the seller and the Bankruptcy Court has questioned the propriety of the sale. During 1962, the Company filed a Petition in Federal Court to compel either consummation of the sale or restoration of the Company to its original position. In the opinion of the Company counsel, this transaction should not be considered consummated until such time as the Court makes disposition of the matter. Accordingly, the transaction has been treated in the accompanying financial statements as though the Company were agent for the Sellers. Operations of the markets have been excluded from the statement of consolidated income, and assets and liabilities (including approximately \$835,000 of assets which would normally be classified as current) related to the markets are shown in the statement of consolidated financial position as investment in McDaniel's Markets. In connection with this transaction, the Company has been making payments on equipment purchase contracts having aggregate unpaid balances of \$177,000 at February 3, 1963, due in installments to January, 1965.

NOTE C—LONG-TERM DEBT. The loan agreement relating to the note payable to an insurance company places certain restrictions on the amount of funded debt and on the amount of current debt from borrowings, and requires the Company to maintain consolidated working capital of \$8,000,000. The agreement also provides that the Company cannot pay cash dividends or acquire its own stock except out of consolidated net earnings which are defined in the agreement as the sum of \$600,000 plus 70% of consolidated net earnings subsequent to January 1, 1960. Under this restriction, earned surplus available for the payment of cash dividends at February 3, 1963, was \$4,500,685.

NOTE D—FEDERAL TAXES ON INCOME. Provision for depreciation of property and equipment is computed on the straight-line method for financial reporting purposes and on an accelerated method on certain items for tax purposes. In addition, certain preopening costs are deferred for financial reporting purposes and expensed for tax purposes. The related tax benefits are deferred and will be credited to income in subsequent periods when the related book charges to income exceed allowable federal income tax deductions.

Forty-eight per cent of the investment credit allowed by the Revenue Act of 1962 amounted to \$197,088, which has been recognized as an increase in net income of the current year. The deferred portion of the investment credit has been reflected in the accounts as deferred federal income taxes.

The federal income tax returns of the Company for the fiscal years 1957 through 1960 are currently under review by the Internal Revenue Service.

NOTE E—PREFERRED STOCK. The Preferred Stock is issuable in series under such terms and conditions as the Board of Directors may determine. The series presently outstanding may be redeemed at any time at a redemption price equal to \$10.50 a share plus dividends accrued to the redemption date, and in the event of voluntary or involuntary liquidation or dissolution, is entitled to \$10 a share plus dividends accrued to the date of such liquidation or dissolution. At the option of the holder thereof, the shares are convertible into fully-paid Common Stock of the Company at the rate of three-quarters of a share of Common Stock for each share of Preferred Stock. At February 3, 1963, a total of 298,718 shares of Common Stock was reserved for such conversion.

NOTE F—STOCK OPTIONS. The Company's restricted stock option plan provides that options may be granted to officers and key employees to purchase shares of the Company's unissued or reacquired Common Stock at a price of not less than 100% of the fair market value of the shares on the grant date. The options are for a term of five years and are exercisable in three annual installments beginning one year after granting for a maximum of 40% of the optioned shares with the balance becoming exercisable in the two succeeding years.

At January 29, 1962, options for 49,928 shares were outstanding and 24,420 shares were reserved for future grants. During the period of fifty-three weeks ended February 3, 1963, options for 30,050 shares were granted, 9,716 shares were sold for \$67,900 to employees exercising their options, and options for 13,722 shares lapsed. At February 3, 1963 (after giving effect to stock dividends declared during the period) options for 58,815 shares at prices ranging from \$15.72 to \$27.01 a share were outstanding, and 8,607 shares were reserved for future grants. There have been no charges or credits to income with respect to the options.

On February 26, 1963, the Board of Directors adopted a new restricted stock option plan, providing the same terms as the plan described above, which would reserve 50,000 shares of the Company's Common Stock for grant. The plan is subject to the approval of Shareholders at the Annual Meeting.

NOTE G—CONTINGENT LIABILITIES. At February 3, 1963, the Company was contingently liable as endorser on \$836,000 of notes receivable that had been sold. These notes had been received on the sale of certain assets of the Company. The companies were contingently liable on other notes, accounts, and conditional sales contracts amounting to \$2,000,000.

NOTE H—LONG-TERM LEASES. The companies occupy certain premises under leases expiring more than three years from February 3, 1963, for which the aggregate minimum annual rentals approximate \$4,220,000 (including approximately \$260,000 for premises owned by Giant Realty, Inc., an unconsolidated subsidiary). Many of these leases provide for additional rent based upon sales and also provide that the lessee shall pay certain taxes, insurance, and other charges. In addition, the companies have executed leases for additional locations requiring minimum annual rents of \$970,000, which were unoccupied at February 3, 1963.

The companies also are liable for annual rent of approximately \$1,200,000 in connection with the leasing of delivery and store equipment over periods ranging to August, 1969.

The McDaniel's Markets, which the Company is operating as explained in Note B, occupy premises under leases expiring more than three years from February 3, 1963, for which the aggregate minimum annual rentals approximate \$350,000.



FOOD GIANT MARKETS, INC. COMPARISON FOR FIVE-YEAR PERIOD 1958-1962

	1962*	1961**	1960	1959*	1958
Net Sales	\$221,392,319	\$196,532,509	\$136,645,328	\$ 94,907,994	\$ 71,017,566
Earnings before Federal Income Tax	6,841,354	5,700,734	5,763,591	3,018,841	1,522,020†
Federal Taxes on Income	3,140,000	2,689,600	2,714,000	— †	— †
Net Earnings	3,701,734	3,011,134	3,049,591	3,018,841	1,522,020
Depreciation and Amortization	2,535,181	2,520,246	1,824,392	1,245,090	1,091,238
Cash Flow (net earnings plus amortization and depreciation)	6,236,915	5,531,380	4,873,983	4,263,931	2,613,258
Earnings Per Share on Common Stock***	1.25	1.01	1.11	1.10	.50
Working Capital	11,395,367††	10,059,200††	8,772,145	6,958,277	10,061,397
Stockholders' Equity	25,034,575	21,427,656	19,035,211	17,431,260	14,646,290
Common Shares Outstanding at Year End***	2,835,817	2,785,665	2,509,828	2,462,349	2,301,774

*53-Week Period

**56-Week Period

***Adjusted for stock dividends paid and three-for-two stock split.

†Net sales do not reflect sales of Magic Chef Stove Division; however, earnings include special and unusual losses relating to Magic Chef in the amount of \$1,503,056.

†Provision for Federal Taxes on Income not required due to prior year's tax loss carry over.

††Includes \$835,000 in 1962 and \$1,120,000 in 1961 of net current assets reflected in balance sheet under caption "Investments and Other Assets—Investment in McDaniel's Markets" (See Note B of Notes to Financial Statement).

*To the Stockholders and Board of Directors
Food Giant Markets, Inc., Santa Fe Springs, California*

We have examined the statement of consolidated financial position of Food Giant Markets, Inc. and consolidated subsidiaries and the statement of financial position of Giant Realty, Inc., as of February 3, 1963, and the related statements of income and surplus for the period of fifty-three weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statements of financial position and statements of income and surplus present fairly the consolidated financial position of Food Giant Markets, Inc. and consolidated subsidiaries and the financial position of Giant Realty, Inc. at February 3, 1963, and the results of their operations for the period of fifty-three weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Los Angeles, California, April 18, 1963

ERNST & ERNST

millions of dollars

Net Sales

250

200

150

100

50



1958 1959 1960 1961 1962

Earnings before Federal Income Tax

millions of dollars

7

6

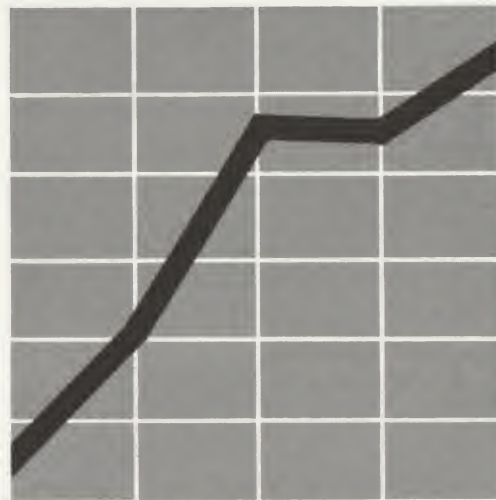
5

4

3

2

1



1958 1959 1960 1961 1962

7

6

5

4

3

2

1



Cash Flow (net earnings plus amortization and depreciation)

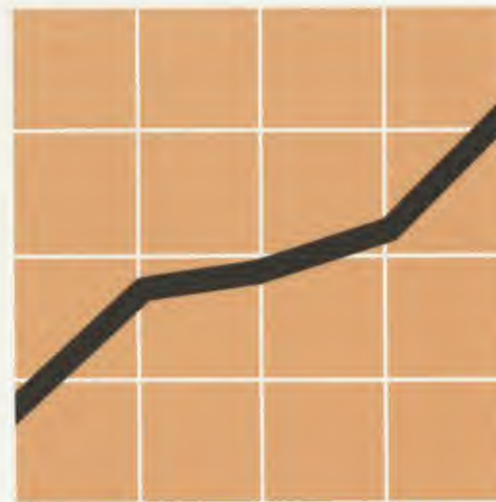
30

25

20

15

10



Stockholders' Equity



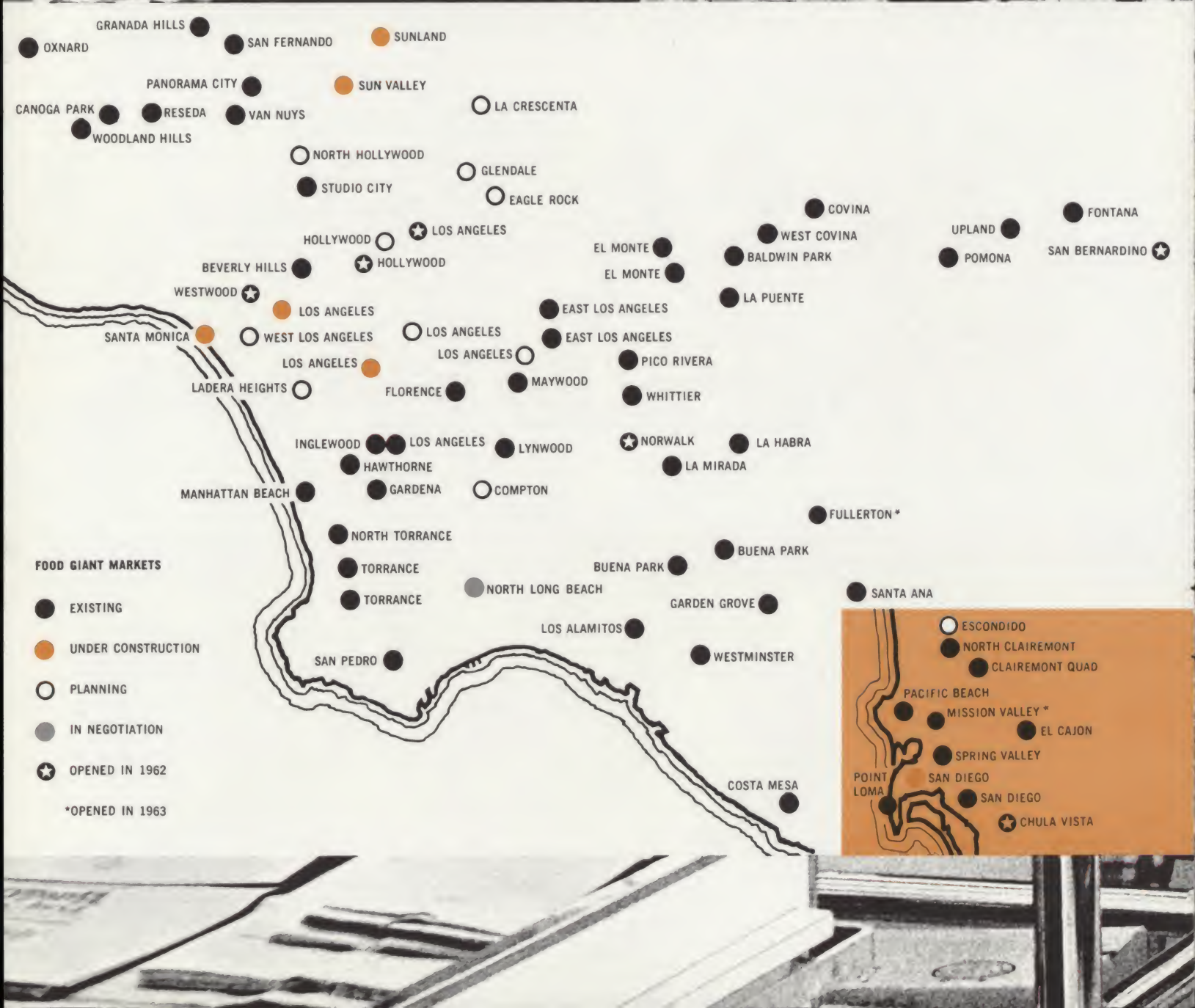
STATEMENT OF FINANCIAL POSITION GIANT REALTY, INC. • February 3, 1963

ASSETS		
Cash		\$ 12,938
Rent receivable (\$72,143) and miscellaneous other assets		92,188
Property (subject to mortgage note payable)—on the basis of cost:		
Land	\$ 697,833	
Buildings	2,597,000	
	<u>\$3,294,833</u>	
Less allowance for depreciation	48,694	3,246,139
		<u>\$3,351,265</u>
LIABILITIES		
Interest (\$50,704) and miscellaneous other liabilities		\$ 51,320
6 ⁰ % First Mortgage Note payable to a foundation—due \$126,775 semi-annually, including interest; final installment due May 1, 1987—also secured by assignment of the lease applicable to the Company's property		3,220,142
Federal taxes on income—estimated		1,441
Stockholder's equity:		
Capital Stock, no par value; authorized 100,000 shares; issued and outstanding 500 shares (all owned by Food Giant Markets, Inc.)—stated capital . . .	\$ 5,000	
Capital surplus	70,000	
Earned surplus	<u>3,362</u>	78,362
		<u>\$3,351,265</u>

STATEMENT OF INCOME AND EARNED SURPLUS GIANT REALTY, INC. • Fifty-three weeks ended Feb. 3, 1963

Rental income from Food Giant Markets, Inc.		\$202,143
Expenses:		
Interest	\$147,121	
Depreciation	48,694	
Other	<u>1,525</u>	197,340
		<u>\$ 4,803</u>
INCOME BEFORE INCOME TAXES		
Estimated federal income taxes		1,441
NET INCOME FOR THE PERIOD AND EARNED SURPLUS AT FEBRUARY 3, 1963		<u>\$ 3,362</u>





6
met Shop



FTG